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EAST ASIA

This publication is prepared for regional specialists in the Washington community by the East Asia - Pacific Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Tokyo and Pyongyang: A Gradual Shift

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Relations between Japan and North Korea have undergone gradual but important changes since 1971. Over the past four years, a private, official diplomatic channel has been established; political and semi-official contacts have increased; and trade and travel between the two countries have grown markedly. At this point, formal relations could be established quickly. Pyongyang would be willing, but Tokyo has no compelling reason to move this far at this stage. Indeed, relations between the two countries are not likely to improve at the same pace as the past four years without further forward movement in the overall pattern of detente. Tokyo is unlikely to allow events to move in any inexorable upward trend that could result in formal relations with Pyongyang prematurely. Even so, interaction between Tokyo and Pyongyang, based on the level of contacts already established, could be an important factor in North-South developments on the Korean Peninsula.

Changing Perceptions

The mutual desire of both countries to improve ties flowed from the emergence of detente in Asia in 1971. At the outset, Pyongyang--perhaps because of prior discussions with Peking--moved more rapidly and vigorously than Tokyo in pursuit of its interests in the new climate. In 1971-72, North Korea turned to the non-communist world as a major source of technology and capital goods, opened a dialogue with South Korea, and undertook a major drive for diplomatic support among both Western and nonaligned states. Japan figured importantly in the North's plans--as an economic power, a key political supporter of Seoul, and an important element in the power equation arrayed against Pyongyang. North

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Korea hoped at the outset to move as far and as fast with Japan as possible in order to strain Tokyo's ties with both Seoul and Washington. Japan, on the other hand, surprised by the Sino-American understanding of 1971, entered the new era uncertainly with no precise plan in mind. Indeed, Tokyo initially could do little more than feel its way until the pace and scope of detente became more clear. With respect to North Korea, Tokyo exercised special caution because of Japan's basic interest in stability on the Korean Peninsula and its security relationship with the US.

Opening Moves

Pyongyang made its first significant gesture in 1971, two months after the surprise announcement of President Nixon's pending visit to China and a month after the opening of Red Cross talks had introduced the climate of detente to Northeast Asia. In an interview with the *Asahi Shimbun* on September 27, Kim Il-song called for an expansion of technical, economic, cultural and press exchanges with Japan, expressed interest in visits by members of the ruling Liberal Democratic Party (LDP), and talked of turning to Tokyo as a major source of industrial imports. Throughout late 1971 and early 1972, the North Korean president used interviews with visiting Japanese to raise the possibility of establishing relations.

Tokyo officials were more cautious at this juncture. Surprised by the Sino-American announcement, their immediate concerns were directed more at Peking than Pyongyang. Tokyo did, however, announce a phased liberalization of restrictions on travel to and from Pyongyang, while denying requests for Export-Import Bank financing of whole plant exports to the North.

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In January 1972, a suprapartisan delegation of Japanese legislators visited Pyongyang and signed an agreement urging:

--the expansion of bilateral trade to $500 million by 1976;

--Japanese acceptance of deferred payment terms;

--technological cooperation;

--the exchange of official trade offices.

The delegation probably hoped that the agreement would develop along the lines of the Liao-Takasaki agreement negotiated ten years earlier. That agreement--covering Sino-Japanese trade--led to the establishment of semi-official Memorandum Trade Offices in Tokyo and Peking, and served as a channel for a phased buildup of political relations. Since 1972, however, both Japan and North Korea have agreed that such trade offices are unnecessary. Pyongyang has never demanded--as Peking did--that trade be restricted to designated friendly firms. Tokyo for its part, later opted for a more official, direct channel of communication.

July 1972 Watershed

Tokyo's major response to detente--improving relations with all Asian Communist states--came with the installation of the Tanaka government in July 1972. Within days, Japanese diplomats in Moscow privately established official contact with their North Korean counterparts. Contacts were elevated to the level of embassy minister by December of that year and have continued, albeit sporadically, ever since. North Korean officials visiting Tokyo in October 1972 and again in October 1974 also held private talks with Japanese officials, but the Moscow

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channel remains the only known venue for consistent private exchanges.

North Korean public commentary on Tanaka was immediately favorable. In July 1972, Kim Il--now premier--delivered a forthright speech that signaled a new positive official attitude toward Tokyo. North Korean propaganda portraying Japan as a military threat was drastically reduced, and it was probably about this time that Pyongyang withdrew anti-Japanese themes from its school curriculum.

Both governments also facilitated a considerable increase in travel and trade, which on Tokyo's part included the use of Export-Import Bank credits beginning in October 1973. From a modest total of $58 million in 1970, Tokyo and Pyongyang increased the annual trade volume to $150 million in 1973, and to $368 million in 1974. Meanwhile, yearly visitors moving in both directions increased from 43 in 1970 to more than 1,400 last year.

The Past Year: Changes in Atmosphere

In the final months of the Tanaka government last year, Tokyo's deteriorating relations with Seoul began to complicate the process of increasing ties with the North. Tensions between Japan and South Korea had begun to build in 1973 with the abduction of Kim Tae-chung from Tokyo by the ROK CIA, and increased markedly a year later when a Korean resident of Japan assassinated Madame Pak Chong-hui in Seoul. Despite these problems, Japanese Foreign Minister Toshio Kimura persisted in calling for better relations with the North--thereby exacerbating frictions in the Japanese - South Korean relationship.

Political forces favoring the shoring up of relations with Seoul finally became ascendant in Tokyo when Miki replaced Tanaka as prime minister in December. At that time, party Vice President Shiina forced Miki to replace Kimura with Kiichi Miyazawa,

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who quickly adopted a more sympathetic attitude toward Seoul. Developments in 1975 have generally favored Tokyo's relations with Seoul over Pyongyang:

--in the spring, Tokyo canceled Export-Import Bank credits for trade with Pyongyang as a result of North Korean defaults on prior obligations;

--later in the spring, communist victories in Indochina generated concern in Tokyo about stability on the Korean Peninsula. As a result, Prime Minister Miki during his August visit to Washington reiterated the essential linkage of Japanese and South Korean security, and--probably more damaging in Pyongyang's view--reaffirmed the need for US troops to remain in South Korea;

--in September, the Japanese participated in a long-postponed ministerial conference with South Korea, agreed to continue economic assistance, and thereby "normalized" relations with Seoul. Tokyo also agreed to cosponsor and lobby for the US-ROK resolution in the UN.

With Japan - South Korean relations on the mend, Tokyo did feel somewhat more free to make some compensating gestures toward Pyongyang. In July, Tokuma Utsonomiya, an LDP Dietman who has long been known for his pro - North Korean sympathies and is a confidant of Prime Minister Miki, held another of his well-publicized conversations with Kim Il-song. Shortly thereafter, the first all-LDP Diet delegation visited Pyongyang. And in early September, Tokyo further liberalized restrictions on the travels of officials from Chosen Soren (the pro-Pyongyang federation of Korean residents in Japan) to North Korea for political purposes.

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Also in early September, when North Korean forces killed two Japanese fishermen on the Shosei Maru near North Korean territorial waters, the overwhelming reaction in Tokyo was to stress the need for better communications with Pyongyang in order to prevent this sort of accident in the future.

North Korean propaganda was surprisingly harsh on Miki at the outset of his administration. It has since leveled off somewhat, but still criticizes Miki and Miyazawa by name and contains little of the optimism about relations that characterized Pyongyang's commentary during the early Tanaka period. In October, presumably annoyed by Japanese efforts to strengthen ties with Seoul and by Tokyo's reaffirmation of the need for US troops in South Korea, Kim Il-song made an unusual attack on the US-Japan Mutual Security Treaty.

Current Assessment

Pyongyang: At a minimum, Kim's criticism of the mutual Security Treaty reflects his mixed feelings about the policy of pursuing better relations with Japan. Having long viewed Japan's security ties with the US as a major stumbling block to his ambition of reunifying the peninsula, Kim must find it galling that, after four years of detente and North Korean efforts to improve bilateral ties, Tokyo has once more reaffirmed the need for US troops in South Korea. Kim is probably also disturbed by the fact that Seoul and Tokyo were able to dissipate the frictions that threatened their relations last year.

Kim may be tempted to resort to a harder line against Japan, try to manipulate the Japanese fear of becoming embroiled in another Korean war, and hope to force Tokyo to abandon its military alliance with the US. But Kim is also aware that he--and Peking--unsuccessfully pursued this line for over twenty years, and he cannot be optimistic about his

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own chances at this juncture. Indeed, it would be difficult to adopt a "cold war" attitude toward Japan without seriously complicating his overall posture of detente.

It is far more likely that Kim will continue to walk a fine line between wooing and pressuring Tokyo. The psychological advantage, vis-a-vis the South, of the modest political advances already registered in Japanese - North Korean contacts is of considerable value to Pyongyang. In economic terms, Japan has now surpassed the USSR as the leading exporter to North Korea. Kim has also openly expressed his interest in cultivating ties with conservative leaders of the LDP, is apparently willing to deal with any prime minister, and has set no pre-conditions for the normalization of relations. Despite Japan's concern to maintain South Korean security, he would apparently welcome the immediate establishment of relations. Hence Pyongyang is likely to encourage as much additional forward movement as possible without exerting hostile pressures that could alienate Tokyo.

Tokyo: The consensus within the ruling liberal Democratic Party favoring contacts and a dialogue with the North has now been broadened to include the conservative wing. Many conservatives were upset by the improvement of ties with Pyongyang at the expense of Seoul during 1973 and 1974. Now that relations with Seoul have been restored to an even keel, however, conservative interests have been served. Recent calls for further dialogue with the North in the wake of the "Shosei Maru" incident have come from such impeccable conservative voices as Shintaro Abe--the minister of agriculture who is a protege of Takeo Fukuda and former prime minister Kishi--and the respected financial daily, the *Nihon Keizai Shimbun*.

Tokyo has two basic interests in ties with the North:

--the need for flexibility in adjusting rapidly to any new developments on the

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peninsula, especially a major change in US policy. Tokyo has a lingering concern that Washington, as it did in its move toward Peking in 1971, will change its posture toward the North--or withdraw from the South--without giving Japan sufficient prior notice;

--an ability to influence developments on the peninsula through contacts with both Korean adversaries. Tokyo also hopes to increase stability there by fostering a dialogue between North and South.

It seems reasonably clear at this point that Japan's desire for flexibility has been achieved, given the level of contacts already established and Pyongyang's willingness to move ahead at any time. For its part, Japan sees little reason for recognition of Pyongyang in the near future and probably has no specific timetable in mind for such a move. Foreign Ministry officials do not now envisage a phased escalation of official dealings as occurred in the evolution of Sino-Japanese relations.

Tokyo's second interest--gaining more influence on the peninsula and helping foster a North-South dialogue--will probably become more of an operative factor in Japan's future dealings with the North. But pursuing this interest will not be easy. Theoretically, Japan could modulate its policies toward the North in response to variations in Kim's policies. The principle of extending Export-Import Bank credits to the North on a "case by case" basis --likely to be resumed by Japan at some future point --would afford Tokyo some real leverage in this respect and over time might serve to increase Pyongyang's stake in more moderate policies. On the other hand, unwillingness or inability in Tokyo to "penalize" Pyongyang during a period in which the North had visibly heightened tension on the peninsula might

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contribute to a more uncompromising attitude on the part of Kim. Another potential pitfall is the possibility that Tokyo's own energetic search for dialogue on the peninsula might result in premature support for a new attractively packaged peace proposal by Pyongyang.

To have any real chance of success, it seems clear that Tokyo will need to keep in close touch with Seoul as well, continuing to provide the South with essential economic and political support. (SECRET NOFORN/NOCONTRACT/ORCON)

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South Korea: Closeup on Energy

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An extended period of rapid growth in GNP and energy consumption has made South Korea the third largest oil importer among LDCs. Only India and Brazil outrank it. Given South Korea's meager energy resources, oil imports will continue to be closely linked to economic growth.

During the past decade, South Korea has emerged as a major oil consumer and importer. While total energy consumption rose 8 percent annually from 1967-74, oil usage increased three times as fast. Oil consumption, which currently averages 300,000 barrels per day, represents half of total energy use. Industry is the main user, accounting for about 50 percent of total oil consumption. The transport and household sectors take most of the remainder.

Growth in oil consumption slowed to 3 percent last year, largely because of an industrial slump. In 1975, tough government conservation measures are helping to hold growth in oil use under 10 percent in the face of a 12 percent jump in industrial output; oil consumption normally would rise faster than industrial output. Commercial consumption appears to be rebounding after last year's slump, while unusually dry weather has required a sharp rise in the use of fuel oil by the electric power industry.

Over the longer term, Seoul expects oil consumption to increase rapidly. According to government estimates, requirements will reach about 850,000 barrels per day in 1981, nearly triple the current level. The pattern of consumption is not expected to change much; the industrial

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share will be buoyed by the large requirements of several major petrochemical plants now under consideration. Plans now call for oil to supply nearly 60 percent of total energy needs by the early 1980s.

Since all oil requirements are met from abroad, import patterns have closely followed consumption trends. In 1974 and earlier this year, however, oil imports increased somewhat faster than consumption because of government efforts to increase stocks. In addition to normal commercial inventories, Seoul wants to increase energy stocks to a 45-day supply. At the time of the 1973 oil embargo, South Korea was caught with little more than a 20-day stockpile.

Saudi Arabia supplies 60 percent of crude imports, with Kuwait and Iran supplying the remainder. Small amounts of products are purchased abroad, chiefly from Japan. South Korean hopes to reduce dependence on imported oil by developing offshore fields in the Yellow and East China Seas have been damped by conflicting territorial claims. Only a few wells have been drilled so far on the East China Sea continental shelf, which is claimed in part by the Japanese. Chinese claims have interfered with work in the Yellow Sea.

Although of declining importance in recent years, coal remains a major energy source. South Korea has nearly 1.5 billion tons of poor-quality anthracite deposits, about one third of which is recoverable with present technology. Primed with new government subsidies and investment loans, coal production increased a total of 22 percent in 1973-74, to 15.3 million tons, after three years of stagnating output. Additional government aid is expected to boost coal production by a million tons annually through 1981. To preserve the 30 percent share of coal in total energy supply, imports also will be increased substantially. Imports are expected to

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provide 35 percent of coal supplies by 1980, compared with only 5 percent at present.

Seoul expects little additional contribution to future energy needs from other fossil fuels and hydroelectric power. Although hydroelectric facilities are to be doubled over the next 5-6 years, they will remain an uncertain source of power because of wide seasonal fluctuations in water levels. This year, for example, hydroelectric power generation is almost 50 percent off the 1974 rate. South Korea produces no natural gas nor does it plan to import any. Use of wood and charcoal, a major source of household energy supplies in the past, will continue to decline rapidly as living standards improve.

Nuclear energy plans are highly ambitious. Although no nuclear power plants currently are in operation, Seoul expects nuclear power to provide 6 percent of total energy needs by the early 1980s and an even larger share thereafter. According to the schedule announced last summer:

--Four 600 MW plants will be completed by 1978, including two by Westinghouse and two by Atomic Energy of Canada, Ltd.

--Eight 900 MW plants will come on stream in 1984-89.

--Thirteen units of 1,200 MW each will be completed between 1990 and the year 2000.

The initial phase of construction is considerably behind schedule. The first Westinghouse plant is now slated for commercial operation in mid-1977, almost two years late; the delay on the second unit is steadily lengthening. Arrangements for the first Candu reactor are just now being completed, following long negotiations over financing and nuclear safeguards.

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Financing a nuclear program of this scale will be most difficult. The cost, now estimated at $32 billion, is sure to rise substantially. Korea's first reactor cost $227 million, and the second will be twice that; the first Canadian reactor will cost the Koreans at least $700 million. Seoul already has borrowed heavily to finance record trade deficits in 1974 and 1975 and will continue to need foreign credits for several years even without large-scale imports of nuclear equipment. (UNCLASSIFIED)

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